

# Chinese Power Structure and Its Transformation in Comparative Perspective\*

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*This paper introduces the general and specific traits of the structure, operation and transformation of party-states, with special focus on China. These traits may be revealed in the power network that evolved from the dependency and interest promotion relationships among actors in the party, the state and the economy during the decision-making process. The network provides the dynamic context of economic, political and state decisions while also serves as a comparative framework for different party-states and their transformation. This framework allows the author to both categorize and confront with each other the several theoretical approaches regarding the Chinese economic and political system.*

**Journal of Economic Literature (JEL) Classification:** P1, P2, P3, P5

**Keywords:** variety of capitalism, party-state system, network, power distribution, China, comparative model

## 1. Introduction

There are multiple and divergent concepts sought to define a comprehensive analytical framework of the Chinese economic development and transformation. The differences in these concepts emerge in their approach of defining the authoritarian regime: predatory, socialist, developmental, neoliberal, entrepreneurial, power-elite; the kind of capitalism: state capitalism, emerging system, hybrid system; and its sub-national varieties: variegated, polymorph, fragmented, entrepreneurial, competitive.<sup>1</sup>

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<sup>1</sup> For example: Szamosszegi and Kyle 2011; Bolesta 2012; Breslin, 1996; Oi 1995; Walsh 2008; Zhang and Peck 2014; Hermann-Pillath and Feng 2004; Naughton 2008; Duckett 1998; Heep 2014; Ong 2012; Lee 2014; McNally 2008; Nee 2007; Rutley 2012; Peck and Zhang 2012; Naughton 1996; Huang 1990; Howell 2006.

One idea brings most of the multiple interpretations to common grounds: the authoritarian rule and the economic subfield is explicitly or tacitly considered a variety of a capitalist system. Owing to unanimous platform but varied focus, researchers are inclined to compare China not only with the European post-socialist systems, but also with developed capitalist systems, or with formerly authoritarian Asian capitalist regimes. Some of the enumerated concepts, however are either systemically opposed to or do not directly match those of capitalism, such as socialist market economy, state-socialism, post-communism. Thus, the puzzle becomes even more complex: is the Chinese system capitalist or communist? Is the Chinese system in the process of transformation or should be viewed as post-communist? How can these opposing concepts be verified?

The goal of this paper is to solve the puzzle by introducing a comprehensive interpretation of the general characteristics of the structure and dynamics of party-state systems and the specifics of the Chinese structure and transformation. This interpretation puts the above opposing approaches on common grounds. In the following sections a comparative party-state model will be introduced demonstrating the complexity of party-state systems, both during operation and transformation.<sup>2</sup>

## **2. The framework of comparison: the Interactive Party-State (IPS) model**

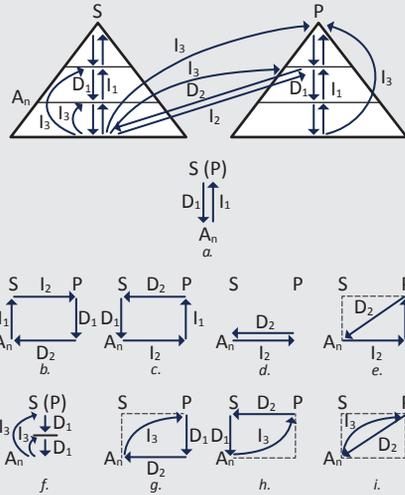
The basis of comparison is the power network that evolved historically, represented by the Interactive Party-State (IPS) model (Csanádi 2016). The IPS model is a bottom-up construction that comprises the self-similarities and differences of party states as outcomes of the structural characteristics of power distribution. In terms of both dependency and interest promotion, there are strongly intertwined relationships among decision-makers in the party, the state, and the economy. This leads to a specific process of decision-making, which is responsible for the emergence of systemic power networks (Figure 1).

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<sup>2</sup> Owing to the very complexity of party-state systems, the multiplicity of their structural systemic specifics, the influence of the individual structural features of the concrete national and/or subnational level unit, as well as its longer-term geopolitical- and actual international conditions, the author limits herself to describe the general and specific properties of the system as well as its dynamics of self-reproduction and transformation. Though the model stresses that individual power distributions in party-states strongly influence the sequence, speed, and conditions of transformation and thus, the characteristics of outcomes, it does not forecast possible blueprints of outcomes of the process. Due to the complexity and cumulated uncertainty of a transformation process (Bunce and Csanádi 1993), the different interaction of the same facts could allow even opposite outcomes. Therefore, based on the logic of the model, forecasting any concrete life-span of the system or outcome of system transformation – considering the Chinese structure, its unprecedented transformation elsewhere and its cumulated uncertainties – would lack foundations.

**Figure 1**  
Main elements of the party-state network and paths of dependency and interest promotion (a-i)

1. Closed channels
2. Unidirectional but multithreaded dependencies
3. Direct connection between the party and non-party decision-makers – sensitivity to each other’s decision
4. Atomized actors (weak horizontal connections)
5. The possibility of multi-threaded interest promotion
6. Structural inequalities in the field of dependency, interest promotion and resistance through interlinking threads ( $D_1$ ;  $I_2$ ) and feedbacks ( $I_3$ )
7. The bargaining capacity and the formal positions do not match
8. Bargaining capacities of different strength will determine the distribution of power in the network



Source: Authors’ compilation.

Main elements of the party-state network are as follows: (1) The party hierarchy, which monopolizes the political sub-sphere. (2) The state hierarchy, which monopolizes the economic sub-sphere and, therefore, the extraction and distribution of resources. (3) Interlinking dependency lines, which origin in the party hierarchy as its instruments of power that reach out to structures of positions, activities, organizations and individuals in non-party hierarchies. (4) Short-cuts (structural feedbacks) in the decision-making process integrating those privileged, within both party and state hierarchies as well as across state and party hierarchies.

The possible connections between these network elements follow some simple principles (see Figure 1). Interlinking dependency lines can originate only in the party hierarchy, since they are the power instruments of the Party (e.g. the nomenklatura system). In turn, feedbacks between the two hierarchies can origin only in non-party hierarchies, because the loop of feedback is formed by interlinking dependency lines that originate in the party hierarchy (Csanádi 2016).

Due to these principles of connection, the operation of the network also follows certain specific rules. Since each actor commands dependency lines originating in its own hierarchy, while only actors in party hierarchy command dependency lines interlinking all other actors, the dependencies, the promotion of interests, and the extraction and distribution of resources are, either directly or indirectly, politically monopolized. Specifics of the elements, the connecting and operating principles of this network will bring about politically rational economic interest and behavior of

actors (Csanádi 2006). These latter arise on the one hand, in the politically rational selective distribution and extraction of resources and in privileges biased towards large state owned economic units that are cumulatively integrated into the network during the decision-making process; on the other hand, politically rational economic behavior and interests predominate in the drive for growth, hoarding resources and accumulating connections (feedbacks).

In this network actors are simultaneously holders of and embraced by dependency lines, thus incorporating the functions of distributor and extractor of resources and those of pleader in one single entity. Accordingly, actors in the network have capacity to extract, attract, and distribute resources, and resist to or benefit from state and party interventions. We call these capacities together as constraints of self-reproduction within the network. However, the extent of these constraints are not uniform: they differ according actors' different capacities to attract, extract, distribute resources and resist intervention as a result of actors' bargaining position within the network. The better the bargaining position the softer are the constraints of self-reproduction, the worse the bargaining position the harder are the constraints of self-reproduction. Actors strive to soften their constraints through politically rational economic behavior within the network.

Consequently, state intervention and role of the state in party-state systems cannot be simplified to the activity of an authoritarian and paternalistic regime and its bureaucracy (Kornai 1994) despite the fact that the state monopolized the state-owned economy and thereby the extraction and distribution of resources. Owing to elements, principles of connection and operation, the instruments of power of the Party permeate non-party institutions,<sup>3</sup> Within those, interlinking lines reach out to positions, organizations, activities and individual party members. Consequently, both indirectly through the monopolizing state and by directly reaching out to positional, activity and organizational structure and individuals in the non-party sphere, the Party politically monopolizes the state-owned economy and thereby the resource extraction and distribution. Thus the state and its actors' behavior and motivation during the process of decision-making should be interpreted in the context of the party-state network.

The main elements, the main connecting and operating principles of this network, the politically rational interests and behavior, as well as its consequences on selective resource distribution according to bargaining capacities are self-similar (Csanádi 2016). In other words, these fundamental characteristics will not differ over time and space (i.e. in different regions and countries or even units at the same sub-national level) and levels of aggregation (national and sub-national levels).

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<sup>3</sup> These are for example, state-owned or state controlled enterprises, schools, cultural or health-care units, the army, the police, the trade union, the different level authorities and their organizations, including central government and government heights, the Parliament, the state council etc.

Despite these self-similarities, however, major elements might have various configurations, which result in a vast variety of structural characteristics of power distribution over various party states. Differences in the distribution of power depend on several structural factors: the combination of the level of strictness within party and state hierarchies (e.g. compulsory or indirect planning); how centralized the origins of interlinking lines in the party hierarchy are; to what sub-fields they reach out, how dense they are and “deep” they go in non-party hierarchy; how centralized the extraction and distribution of resources along the state hierarchy is; from which level the structural feedbacks within and between hierarchies originate; to what level these feedbacks reach in party and/or state hierarchies; and what is the extent of actors’ integration into the network reflected by the location and accumulation of structural feedbacks. The different combination of these structural factors will be responsible for the differences of power distribution among various party states combined with individual specifics (e.g. size, geopolitical location, economic development, cultural traditions etc.) (Csanádi, 1997, 2006).

These varieties may be grouped in three characteristically different patterns of power distribution: these are the Self-exploiting, Self-disintegrating and Self-withdrawing patterns. Each pattern is characterized by the different combination of three main pattern-forming elements and may have countless varieties within it while keeping the main pattern characteristics. These are (1) the level of centralization of the interlinking lines that origin in the party hierarchy, (2) the level of centralization of the extraction and distribution of resources in the state hierarchy, and (3) the density and strength of feedbacks within or across the hierarchies.

These characteristics will determine the pattern-conforming distribution of power and thereby actors’ capacities to extract, attract, and distribute resources, and resist to or benefit from state and party interventions within the power network. For the *self-exploiting* pattern, the origins of interlinking lines within the party hierarchy as well as the extraction and distribution of resources within the state hierarchy are centralized, while feedbacks in the network are weak or scarce. This pattern prevailed in the Soviet Union during Stalin, in the 1950s in Eastern Europe and China, and until the revolution in 1991 in Romania and to date in North Korea. This pattern of party-state system is usually called as classical or communist system (Bolesta 2012) that operates with compulsory planning and forced resource allocation. In the *self-disintegrating* pattern interlinking lines in the party hierarchy are relatively decentralized, while the extraction and distribution of resources in the state hierarchy is centralized, and feedbacks are strong. In this pattern decentralizing reforms within the network are the main means of resource extraction and distribution. In the *self-withdrawing* pattern the origins of interlinking lines within the party hierarchy as well as the extraction and distribution of resources in the

state hierarchy are relatively decentralized and feedbacks are strong. In this pattern instruments of resource extraction and distribution are combined, decentralizing reforms within the network and resource creating reforms outside of it (*Naughton 1996*).

The distribution of power within the different patterns may change: variations within the pattern may occur in time, space and aggregation levels. Moreover, distribution of power may also shift patterns, and all patterns may transform into another system. Transformations are pattern-conforming (in detail see *Csanádi 2006, 2016*). In the following section the specifics of the Chinese pattern will be described along its evolution from one pattern to the other combined with the gradual system transformation. Transformation will be interpreted as a two-fold process (1) the retreat of the network from monopolized sub-spheres and (2) the expansion of the field outside of the network.

### 3. The development of the network structure in China

By the end of the 1950s a version of Self-exploiting (centralized) pattern of power distribution evolved in China that due to several drastic decentralization campaigns initiated by Mao during the „Great Leap Forward” and the Cultural Revolution repeatedly partially and temporary collapsed, and finally by the second half of the 1970s regenerated in a decentralized pattern. The decentralized nature of the Chinese power network means the subordination of state owned enterprises to the discretion of different level government organizations first carried out repeatedly during the Mao era. Administratively, the lower the rank of the government level, the smaller the size and importance of the subordinated SOEs to these governments. By the time Deng Xiao Ping took power this pattern has stabilized: a relatively decentralized resource extraction and distribution, relatively decentralized interlinking lines from the party hierarchy that overlapped positional, activity and organizational structure and individuals in non-party fields and strong feedbacks reaching to higher levels of the party and state hierarchy.<sup>4</sup> Thus, during this historical process the Chinese system changed from a variety of self-exploiting pattern to a variety of self-withdrawing pattern.

Also instruments of resource extraction and distribution gradually adapted to the new pattern. Adaptation was necessary as forced resource redeployment implemented during the period of the centralized pattern did not work due to the increased resisting capacity of actors in the decentralized pattern (*Csanádi 2011*).

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<sup>4</sup> For example, managers of large state owned enterprises are members of the Central Committee of the CCP, and over 50 SOE top managers (party secretary, CEO and chairman of the board are in the nomenklatura responsibility of the Central Organization Department reviewed and approved by the Standing Committee of the Politburo [http://www.uscc.gov/sites/default/files/Research/10\\_26\\_11\\_CapitalTradeSOEStudy.pdf](http://www.uscc.gov/sites/default/files/Research/10_26_11_CapitalTradeSOEStudy.pdf) p. 75.

From the early mid-1980s, decentralizing (resource revealing) reforms within the party-state network were introduced both in agriculture and industry. In agriculture, decentralizing reforms delegated expanded decision-making rights for rural households. The scope and quantity of compulsory production for state procurement was narrowed, higher prices in state procurement were applied. Decentralization in agriculture was pre-empted from the end of 1970s by the partial retreat of the network: communes were dissolved, household responsibility system was introduced, and interlinking lines formerly attached to communes were left in limbo or transferred to formal collectives. Also dual-track pricing was implemented to sell over-the-plan products for market prices, thereby expanding the field outside the network. Similar process took place in industry by mid 1980s in the form of the dual-track pricing.

Decentralization of decisions accelerated as SOEs and sub-national government authorities gained formerly centralized discretions that were accompanied by the larger jurisdiction of sub-national party authorities. Consequently, decentralization of decisions and resources in the specific Chinese pattern further increased local decision-making power, resource attracting, extracting and distribution capacities as well as resisting capacities to higher level intervention reflected in the institutional and decision-making structure. The process of decentralization of power distribution within the network – with some exceptions (e.g. 1994 resource centralizing tax reforms) – continued throughout the decades that further strengthened the decentralized character of the Chinese power network. Decentralized power distribution, institutional responsibilities and respective management of economic development are reflected also in the share of central and local investments in fixed assets despite various revenue centralizing efforts since mid 1990s. According to *Szamosszegi and Kyle (2011, p. 33, Figure IV-1)*, in 2009, investments in fixed assets undertaken, overseen and permitted by sub-national governments was overwhelming in all sectors, including manufacturing (95 per cent), real-estate (98 per cent), construction (92 per cent), mining (68 per cent) and different services (between 99 and 48 per cent).

The increased local bargaining and resisting capacities in turn, occasionally increased the frequency of hardening reproduction constraints of the whole network when resources to distribute ran out (*Csanádi 2005*). Central reactions to tensions culminated in the Tiananmen Square protests and its bloody clamp down in 1989. This provoked economic restrictions and political centralization efforts and thereby the temporary expansion of the network until 1991. But centralizing efforts soon failed, the economy slowed down critically hardening reproduction constraints of the Chinese power network. From 1992 onwards, parallel with the process of further decentralization, the relative and absolute retreat of the network gained speed, gradually expanding the economic sub-sphere outside the network. Thus

decentralizing reforms within the specific power distribution strongly contributed to the acceleration of the retreat of the network by forcing the government to seek for new resources to distribute by leaping out of the network. The decentralization of resources, decision-making capacities and new instruments of resource extraction and distribution within the network, however, did not change the self-similar characteristics of party-state systems. For example, the distribution of resources at all levels remained politically rational.

#### **4. The Chinese transformation, a pattern-dependent variety of the transforming party-states**

The process of decentralization, the frequency of hitting hardening reproduction constraints and the frequency of reforms are interrelated. The increased decentralization of decisions within the network further redistributed the power towards local levels and lead to increased resisting capacity to central intervention driving the system towards growing frequency of hardening reproduction constrains. This forced the escalation of pattern-specific instruments of self-reproduction from outside the network and thereby the gradual expansion of the market sphere. This process underlies that it is the Chinese pattern of power distribution and dynamics that provides the structural background of the „Chinese style” reforms and transformation. Its characteristics: the gradual, decentralizing reforms within the decentralized network and the gradual reforms outside the network expanding the market sphere, reflect a process of economic transformation first, under authoritarian rule accompanied by macro-economic growth.<sup>5</sup> During this process, party legitimacy prevailed as resources extracted from the expanding private sphere could be redistributed within the network allowing its reproduction along the self-similar distributional priorities.

As we have already mentioned, the process of absolute retreat of the network begun in the agriculture at the end of the 1970s, dissolving communes and creating household responsibility system. This move went parallel with the decentralization of decisions within the network in the industry in order to bring decisions to the level of real economy. This process was labelled enterprise and manager responsibility system regarding production, marketing, investment decisions, expansion plans, and staff, that also provided profit retention opportunities. Parallel to decentralization within the network competitive capital, manpower and organizations strip of – empty – the network to join the expanding market sphere. At the same time alternative capital, actors and interests enter the network as owners in joint ventures, shareholders, members in Peoples’ Parliament or in

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<sup>5</sup> Chinese pattern of power distribution and transformation specifics differ from that of its former European counterparts’. These patterns transform either first politically rather than economically or through abrupt collapse of the network and parallel transformation of all subfields (see in detail *Csanádi 2006, 2016*).

inter-ministerial committees that provided new sources of the self-reproduction of the network. This process, owing to the infiltration of alternative decisions, interests, organizations, while providing resources, formally and informally weakens the influence of the party on the economy through the network. Parallel to decentralization, the emptying and weakening of the network, also former distributive functions were withdrawn from lower levels allowing enterprises greater freedom in deciding about investments up to a certain volume. These moves of absolute retreat were intensified from the mid 1990s when the network has been increasingly cut through privatization, close-downs and bankruptcy of first TVEs (township and village enterprises) and later state-owned enterprises, leaving the direct interlinking and hierarchical lines in limbo. Opposite efforts may be perceived simultaneously by the Party to expand its formal and informal influence on the private sphere through private or collective enterprises founded by local party executives, or by succeeding to form party cells in non-public enterprises, involving there 3,5 million party members (*Thornton 2012*) and integrate powerful private interests into different segments and levels of the network.

The relative retreat of the network through the higher speed of expansion of the sphere outside the network may be illustrated by the market field that began to expand when the dual-track pricing regulations were introduced both in agriculture and industry that allowed producers to sell their over-the plan agricultural and industrial products on market prices. Besides dual track system, further expansion of the market was allowed by „opening up” (*Weingast 1995; Walder 1995; Naughton 1996*). This move attracted resources from the global economy in the form of FDI in green field investments outside the network or in economic units embraced by the network. New private enterprises (both domestic and foreign) were allowed to be set up, the number of special economic zones were increased and investment-friendly laws were implemented that attracted foreign capital. Further expansion was boosted by those who transferred capital, organization and skills and manpower from the network to the private sphere and by those SOEs and collective units who were privatized. All of these activities stimulated the fast growth of rural to urban migration absorbed by the expanding competitive sphere.

## **5. Adaptation to external shocks in the transforming Chinese pattern**

Pressures during operation and during transformation will influence the advancement or retreat of state functions and the implementation of monetary or fiscal means (*Yu 2010*). However, shock induced by the crisis activates state interventions, interventions activate the decision-making network, the network in turn, activates the system characteristics of resource distribution and intensify the structural motivation of economic units for growth and thereby for repetitive investment overheating. Owing to self-similar characteristics of the network,

overheating is present in time, space and different aggregation levels, during the self-reproduction and the transformation of the network.

Owing to strong resisting capacity to interventions within its network, China's party-state pattern is highly sensitive to hardening external and internal constraints both in case of their alternative or simultaneous occurrence and length of prevalence. Empirical research results reveal that despite China's substantial transformation towards a market economy, the occasional need for increased state intervention has mobilized the general characteristics of the party-state system at all aggregation levels temporarily increasing the expansion of the network also to different extent at sub-national levels according to pattern and individual specifics.

The stimulus package introduced in 2008 was the direct adaptive consequence of an external shock caused by the global crisis and the subsequent government reaction in the form of intensified state intervention that mobilized economic actors. In fact, state intervention opened up new chances for selective resource distribution in the form of central, local budgetary and bank resources in the western and central regions, in the construction sector, and in some sectors of manufacturing with preference given to large-size and state-owned enterprises and cumulatively integrated enterprises in the decision-making processes through the network (Csanádi and Liu 2012). Newly opening chances similarly mobilized the politically rational economic behavior of actors to hoard resources and invest. This phenomenon took shape during the implementation of a stimulus package after 2008. The locus of increasing activity in both the geographical space and the hierarchy of aggregation levels was determined by the specifics of decentralized Chinese party-state system and the decentralized distribution of responsibilities and chances to extract and allocate resources. Input requirements of the privileged construction sector mobilized enterprises in manufacturing that contributed to the investment overheating, excess capacity, non-performing loans, local indebtedness and slower GDP growth. The structural impact of the stimulus package empirically supports the fact that owing to the political rationality of economic behavior in the system, market-conforming "personnel policy" incentives and decentralization of fiscal decisions within the network will be "translated" to politically rational rather than efficiency oriented behavior while promoting economic growth as expected by Knight (2012) based on the concept of developmental state.

Concluding this section: systemic characteristics of the party-state together with their Chinese specifics resulted in the transitory expansion or slowing retreat of the network owing to investment overheating and steadily growing local indebtedness through large and state-owned enterprises and local governments and the transitory slow-down of market expansion. The features of China's transforming economy further amplified this process, since the increased demand for inputs on the side of enterprises which state intervention privileged due to its systemic priorities, also

mobilized actors in the private sphere according to privileged sectors, regions and the ownership and scale of enterprises. Thus, overheating amplified while network expansion proved to be transitory (*Csanádi 2013; Yu 2010*).

Based on the above, we may also conclude that the transformation dynamics is not a linear process on national or local levels: speed and conditions of transformation are constantly in move due to the changing dynamics of the retreating network and emerging market sphere, the changing dynamics of internal and external pressures and their interaction.

## **6. Conclusions**

The aim of the study was to define the main system characteristics of the emerging Chinese market, the structural characteristics of the „Chinese style” as well as the state’s behavior in the context of those characteristics. Based on the implemented comparative analytical model supported by empirical research we argue that the Chinese system and its specifics should not be pressed into the present standards of varieties of capitalism. China’s social system is communist, described with a politically monopolized power network between actors in the party, the state and the economy, with its self-similar elements, principles of connection and operation in time, space and levels of aggregation. Rather than being a developmental state, the Chinese party-state is a structural variety of the patterns of power distribution characterized by decentralized power network with pattern-conforming instruments of resource extraction and distribution: resource creating reforms outside the network and decentralizing reforms within the network. Chinese system’s pattern-conforming operation simultaneously leads to specific sequence, speed and conditions of system transformation. The sequence is: economic transformation first, as the network is retreating first from the economic subfield while the market field outside the network is expanding. The speed of the transformation process is gradual, while conditions of economic transformation and thereby the emerging market are defined by an authoritarian regime and accompanied by macroeconomic growth that preserves party legitimacy. Thus, the Chinese communist system should be compared to – but not identified with – other present or former transforming party-state systems with similar or different patterns of power distribution.

At the same time, the transforming Chinese communist system and the transformed post-socialist systems are not comparable on common systemic grounds. Moreover, China is not an outlier capitalist system, neither is a socialist market economy in itself, or a developmental state without the communist system characteristics described by the Interactive Party-State model. Instead, it is one of the well embedded patterns of the communist power network in a period of system transformation. State’s role and expanding or shrinking market at any level and

time should be interpreted in strong interaction with the dynamics of the retreating or expanding network and those of domestic and external pressures. Therefore, the role and behavior of the state at central and local levels in China should also be interpreted in the context of the transforming politically monopolized decentralized power network, and its dynamics – both at „normal” times and at crisis situations. Economic functions, actions, organizations and behavior of the central and local governments should be analyzed embedded in the power network. Similar contextual approach should be used to analyze behavior of groups, organizations, or individual actors.

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